

**MINUTES OF THE MEETING OF
THE ADVISORY COMMITTEE OF THE
LOCAL GOVERNMENT PROPERTY INSURANCE FUND**

Wednesday, October 27, 2004

**Office of the Commissioner of Insurance
GEF 3
125 South Webster, Room 227
Madison**

PRESENT: Kevin Houlihan, Chair, City of Madison
Glinda Loving, Vice Chair, Milwaukee Metropolitan Sewage District
Nick Evgenides, Brown County
Connie Fisher, Chippewa County
Gary Hansen, Rosendale-Brandon School District
Don LaFontaine, City of Oshkosh
Andrew Licata, Hayward Community Schools
Keith Lucius, Ashwaubenon School District
John Rath, Milwaukee County
Ken Rogers, Eleva Strum School District
John Roth, Lake Geneva School District
Jerry Runice, Berlin Area School District

GUESTS: Eileen Mallow, Office of the Commissioner of Insurance
Dan Bubolz, Office of the Commissioner of Insurance
Lowell Carter, The ASU Group
Greg Grunow, The ASU Group
Sue Hoffman, The ASU Group
Fred Haring, The ASU Group
April Zelinski, The ASU Group
Dave Marchant, Marchant Consulting
Donia Banu, Brasnov, Romania (guest of Ken Rogers)

ABSENT: Nicholas Alioto, 2nd Vice Chair, Tigerton School District
Carole Charles, Outagamie County
Julee Helt, Village of Waunakee
Harold Reckelberg, Town of Luxemburg
Laura Stauffer, Waukesha County
Doug Saubert, City of Whitewater
Barb Wegner, Dane County

Kevin Houlihan called the meeting to order at 9:45 a.m.

The agenda was reviewed and no new items added.

Upon a motion duly made by Andrew Licata and seconded by Jerry Runice, it was unanimously

RESOLVED, that the minutes of the Advisory Committee of April 14, 2004 are approved as presented.

Old Business

Eileen Mallow updated the Committee regarding Marathon County. OCI is working to resolve this case. It is under appraisal and being supervised by a Dane County judge. In answer to several questions, Eileen advised that legal representation has been provided by both the Department of Justice at no cost to OCI, and currently outside counsel is representing OCI at a negotiated rate. The attachment point for reinsurance is \$500,000, and a claim will be filed with them following resolution. Current reserves are at \$2,000,000.

Dan Bubolz provided a status on the Electronic SOV Project. A lot of effort has been put forth to develop a plan for this project. Unfortunately, OCI IT Department does not have the resources to continue with the project. The Fund will solicit bids through an RFP in the first half of 2005.

Dan Bubolz and Dave Marchant discussed the Fund System Upgrade. The new system was installed and policy services began utilizing the new system effective July 1, 2004. The claim data will be converted with month end data of September 2004, and will be used beginning in the month of November 2004. Pinsoft staff has been working on-site and very closely with ASU staff to make this happen.

Eileen Mallow and Dan Bubolz presented the **Manager's Report**.

1. LAB Audit

The Legislative Audit Bureau began their audit this past Summer. They discovered that a couple of years of claim files were destroyed by the prior contractor (FY 2001, FY 2002). OCI has demanded that Aon reconstruct the records that were destroyed. Aon may be contacting policyholders for assistance in this process. OCI would consider reimbursing policyholders for any costs incurred in this process. Without this information, LAB would issue a "no opinion" for the two fiscal years involved. LAB intends to resume completion of this audit in March 2005.

2. Administrative Contractor RFP

The Administrative and Claims Services contract expires December 31, 2004. The RFP was issued and responses have been received. An evaluation committee has been assembled and includes representation

from the Advisory Committee. The length of the contract was modified from three to five years (one year contract with four options to renew). The award of the contract is expected to be announced no later than December 15, 2004.

3. Actuary RFP

The response for the Actuarial Services RFP is due November 22, 2004 with an effective date of February 2005. A bidder's conference was held this week with one attendee, however, multiple RFP materials were distributed.

4. Reinsurance/Terrorism

Coverage is currently in force through March 31, 2005. The federal provision for Terrorism coverage (TRIA) is due to expire at the end of 2005, and there is no indication what the government will do. The reinsurance broker, Willis, and the Fund are monitoring this situation to determine how the marketplace will respond. They are currently actively marketing for renewal and trying to keep the terrorism coverage currently in place.

April Zelinski, Fred Haring, Lowell Carter, Greg Grunow and Sue Hoffman, presented the **Administrator's Report**.

1. Claims

i. Activity Report

Greg reviewed and commented on several charts and graphs depicting claims activity through the end of the fiscal year ending June 30, 2004. The largest claim was \$1.3 million, with 10 others over \$100,000. 11 claims amounted to \$2.6 million. There were 1,500 paid claims, and over 600 closed without payment. Not counting the 12 largest claims, average paid claim amounts were just over \$4,800. We are anticipating about a 10% increase in claims for this calendar year 2004.

ii. Subrogation and Recoveries

Greg reported that there are currently 4 claims outstanding with potential recovery value in excess of \$2.3 million. He discussed some of the recent settlement agreements that have been reached, and the potential for litigation in another case. Greg also noted that there are several factors that affect recovery, such as, actual cash versus replacement value; liability limitations; and, waiver of subrogation.

John Rath suggested that the Claims & Policy Issues Sub-Committee be appointed to investigate and evaluate the use of the AIA contract to avoid situations of waiver of subrogation. Nick Evgenides offered that WIMIC rewrote their AIA documents a few years ago, and this might be helpful to Fund policyholders.

iii. Loss Control

Greg also discussed some interesting claims that have occurred in this calendar year, and noted the weather events that have impacted claims and claims handling. This past summer included a number of water and flood claims, some of which were not covered by the Fund but would potentially be covered by FEMA. He suggested that policyholders take steps to understand their available coverage, document their loss clearly, and provide full documentation to both the Fund and FEMA for review.

To assist policyholders in determining if they are in a Flood zone, ASU has subscribed to a service to obtain this information when claims are submitted to the Fund.

2. Policy Administration

i. Activity Report

Sue Hoffman reviewed several charts and graphs explaining the program's status as of the end of the Fund's fiscal year (June 30, 2004). While Insurance in Force and Premium in Force have seen gains from the prior fiscal year, there has been a slight net decrease (3) in the number of Policies in Force.

ASU has been tracking activity to determine why Fund policyholders choose to leave the Fund, and with whom they are securing their property coverage. The Fund has lost 7 counties to the new County mutual program, and we anticipate losing a couple more. Towns are generally the next entity to move, but this is usually due to their need for agency services.

ii. Non-Owned Property

April Zelinski discussed the issue of requiring policyholders to annually report the existence of owned versus non-owned property as a function of reapplying for their coverage. ASU and the Fund recognize that this process of checking each item on the SOV has created a hardship especially for those policyholders with a large number of properties. We are exploring alternative

methods to assist both policyholders and staff. However, until such time that an alternative method is approved and implemented, policyholders must continue to fully complete the SOV as presented to comply with application requirements.

3. Survey Results

The results of surveys provided by policyholders regarding services delivered by the Policy Services department are provided through July 2004. Claim surveys will be sent out this Fall covering the prior two quarters of activity.

Surveys are sent to the Fund's office and reviewed by Dan Bubolz before being forwarded to ASU for record keeping. Issues noted by a policyholder are acted upon by either Dan or management at ASU to try to clarify concerns and/or improve services.

4. Newsletter

A copy of the Fund's newsletter published in August 2004 is provided. ASU requested feedback on the usefulness of the newsletter or suggestions for contents, format and distribution. Some policyholders have responded favorably to having the newsletter posted on the website, while others would prefer to continue to receive a hardcopy. Overall, the Advisory Committee felt that the newsletter was beneficial as a communication and educational tool and would like to see it continued.

Dave Marchant presented the **Financial Report**. Dave reminded the Committee that he compiles the data but does not audit it. Dave highlighted some of the more significant areas of the report including:

- The Fund has increased surplus by \$10 million for FY 2004
- This level of surplus returns the Fund to approximately where it was at in FY 2000
- Current surplus is just over \$24 million
- Both direct and net losses have decreased significantly resulting in a net income gain of \$9.7 million – the first gain since FY 2000
- The Fund's excellent combined loss ratio (total net costs) is at 0.57 (net cost of \$.57 per dollar)
- The combined ratio is low due to the Fund's unusually low ratio (47%) and continued low operating costs (only 10% for both claims and underwriting expenses), whereas typical property casualty insurers target a loss ratio of 65% and operating ratio of 30%.

Dave encouraged the Committee to consider implementing rate modeling processes that are intuitive, easy for the policyholders to understand and simple to administer. Dan

discussed the concept of changing the evaluation and rate modeling process to the "Total Component" method as the current method (square footage) is obsolete and inaccurate. A change in process does not necessarily translate to increased premiums, however, property values may be increased by as much as 15% if evaluated more accurately. When the Fund is ready to proceed, this issue will be assigned to a sub-committee to assist in determining if and how to change the process.

John Rath requested a copy of the Annual Statement when this becomes available. It is noted that all financial information, meeting minutes, newsletters, and other information is posted to the Fund's web-site.

Committee Reports

1. Claims & Policy Issues

Don LaFontaine provided a report on the activities of this sub-committee. The committee made recommendations (see report provided) on several policy issues including:

- Business Income Endorsement
- Specific Items Coverage
- Coinsurance Policy, and
- "Forgot" Clause

No action can be taken on these recommendations as the Advisory Committee no longer has a quorum present.

It was agreed that ASU would present this information to the Oversight Committee for their input, and reconvene the sub-committee for further discussion. The Fund would also like to see the majority of revisions to the policy made at the same time to avoid confusion.

Chair Houlihan asked the sub-committee to take on the task of reviewing the waiver of subrogation provision of the AIA agreement and making recommendations to the Advisory Committee at the next meeting.

2. By-Laws

In the absence of Chair, Nick Alioto, April Zelinski reported on behalf of the By-Laws Sub-Committee. The committee was asked by Chair Houlihan to consider whether the by-laws would permit a non-Advisory Committee member to participate on a sub-committee.

It was noted that the by-laws are silent as to the topic of sub-committees. Based on this information, the sub-committee recommended that,

- Sub-committees may involve non-Advisory Committee members to participate on the sub-committee at the discretion of the sub-committee Chair; and
- The appointment by the sub-committee Chair of a non-Advisory Committee member to the sub-committee will be "project specific".

The members of the Advisory Committee present agreed that no action needed to be taken on this topic as the by-laws are silent to this issue, and the process is working appropriately.

Kevin Houlihan discussed **Committee Membership**.

1. Resignations

Two members with expiring terms of December 31, 2004 of the Advisory Committee are no longer eligible to serve due to loss of their entity position, and a third member with an expiring term of December 31, 2005 will become ineligible in the near future. ASU has been asked to assist in recruiting new members for these open seats, and the Chairman will make appointments as appropriate. All members are asked to submit the names of interested candidates to Chair Houlihan or April Zelinski.

2. Terms/Reappointments

Kevin advised that the remaining members whose terms are expiring on December 31, 2004 would like to continue service on the Advisory Committee.

According to the by-laws, Chair Houlihan reappointed the following Advisory Committee members to serve with terms expiring on December 31, 2007:

Gary Hansen, Superintendent, Rosendale-Brandon School District
 Andrew Licata, Business Manager, Hayward Community Schools
 Keith Lucias, Director of Business Services, Ashwaubenon School District
 Ken Rogers, District Administrator, Eleva Strum School District
 John Roth, Business Manager, Lake Geneva School District

Kevin noted that all Advisory Committee members have satisfactorily complied with the request to have their public entity provide a letter acknowledging their eligibility to serve on the committee and represent their interests.

3. Sub-Committees

The roster of Sub-Committees was reviewed and volunteers sought to replace outgoing members or assist with tasks.

Andrew Licata agreed to serve on the Claims & Policy Issues Sub-Committee.

The **Next Meeting of the Advisory Committee** will be held on Wednesday, April 6, 2005 beginning at 9:30 a.m. at the same location.

Chair Houlihan adjourned the meeting at 1:00 p.m.

Respectfully submitted,

April Zelinski, Acting Secretary

Date

ATTEST:

Kevin Houlihan, Chair

Date